B5000-3,5-4

KORN/FERRY INTERNATIONAL

1985 ANNUAL BOARD OF DIRECTORS STUDY

OF INSURANCE COMPANIES

KORN/FERRY INTERNATIONAL

Board Services Division
237 Park Avenue
New York, New York 10017
(212) 687-1834

INDEX

1	Introduction Summary of Findings
11	Statistical Tables Present Number of Board Members
12	Board Composition
13	Committees
14	Compensation
15	Additional Compensation Information
16	Board Practices and Policies
18	Issues
19	Profile of Korn/Ferry International

* * *

Introduction

For the past 12 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify and gain insight into significant trends affecting the structure and behavior of corporate boards. As part of our annual study, we make a special study of the data pertaining to the boards of insurance company participants.

This year, of the record 633 corporations that responded to our annual study, 11 percent were insurance companies. Industrial and service corporations accounted for 77 percent of the total, banks and other financial institutions, 11 percent and retailers, four percent.

Summary of Findings

On a question-by-question basis, the following findings are directly related to the insurance industry respondents (Table 1). Whenever appropriate, comparisons are made with all other responding corporations in our study.

1. Size of Board (Table 2)

The boards of directors of insurance companies have an average of 16 members. This is one more than last year and higher than the average of 13 for all respondents. Banks and financial institutions continue to have the largest boards, averaging 19.

2. Inside Directors vs. Outside Directors (Table 2)

Insurance boards are composed primarily of outside directors, each averaging 12 outside directors compared to five inside directors, an increase of two from last year. The averages for all respondents is four inside and nine outside directors.

Among insurance respondents, 89 percent believe that more than half of their directors should come from outside the company. Of these, 60 percent believe that at least three-quarters should be outside directors, compared with only 36 percent for all respondents.

3. Board Composition (Table 3)

The two major sources of outside directors for insurance company boards are senior executives of other companies and retired executives of other companies, each cited by 86 percent. This suggests that insurance companies are continuing to seek outside directors who are not only independent of the company but who have considerable management experience. This is further verified by the fact that 85 percent of the insurers cited corporate experience as the primary consideration in asking a prospective director to sit on their boards -- more than any other responding group.

Insurers' boards also exceed the overall average in the percentage of women directors (61 percent vs. 45 percent) and ethnic minority directors (29 percent vs. 26 percent) (Table

3A). The presence of women serving on insurance company boards has increased from 43 percent reported in our Eighth Annual Study. Both women and ethnic minority board members are drawn primarily from the ranks of academicians, senior executives of other companies, former government officials and, in the case of minorities, attorneys who do not provide legal services to the company (Table 3B).

The percentage of insurance companies reporting academicians on their boards continues to be strong. In 1984, 63 percent were reported, well above the overall average of 52 percent. The percentage of insurers having commercial bankers on their boards has decreased from 61 percent reported in 1980 and 59 percent in 1983 to 45 percent reported this year. Overall, only 31 percent of the respondents seat commercial bankers on their boards.

4. Is the Chairman also the CEO? Is the CEO also the COO?

Seventy-nine percent of the insurance company respondents state that their chairman of the board is also their chief executive officer. Forty-nine percent report that their chief executive officer is also their chief operating officer.

5. Committees (Table 4)

The audit, executive and compensation committees continue to be the most prevalent standing committees among the insurance respondents. Insurers lead all other responding

groups in the use of the executive (92 percent vs. 80 percent overall), finance (61 percent vs. 38 percent) and corporate ethics (16 percent vs. 7 percent) committees. However, the percentage reporting a benefits committee (16 percent) remains the lowest reported of all responding groups. Fifty-three percent report a nominating committee -- up from 48 percent in 1980 (Table 4A).

The finance committee is again the largest, averaging seven members. The compensation committee rose to six members, up from four members last year. The audit committee is composed entirely of outside directors (Table 4B). The compensation and nominating committees each reported one inside director, up from none in 1983. The finance committee is not only the largest, but it also meets most frequently, averaging eight meetings per year (Table 4C).

6. Compensation (Table 5)

Ninety-two percent of the insurance company respondents compensate their outside directors on an annual plus per-meeting basis. Only two percent use the per-meeting only method of payment and six percent pay an annual fee only, both up from one percent last year.

- **Annual plus Per-Meeting Fee (92 percent of the respondents)**

Although the average total yearly compensation for

outside directors of insurance companies has increased 16 percent over the past five years from $14,140 to $16,400, the group continues to lag behind all but the smaller industrials (under $600 million). Insurers are 13 percent below the $18,800 yearly average reported for all respondents. The components of the total compensation include an $11,200 average annual fee and a $693 average per-meeting fee (Table 5A). The average annual retainer rose 11 percent; the per-meeting fee rose more than $100 per meeting or 19 percent over 1983 per-meeting compensation.

The upper quartile average, included in this section for comparative purposes, is up from last year's $24,528 to $27,300, and above the $27,100 average for all respondents (Table 5B).

7. Committee Compensation

Ninety-four percent of the insurers compensate their outside directors additionally for serving on a committee. For the first time this year, the most prevalent form of payment is the annual plus per-meeting fee, now used by 48 percent, up from 36 percent last year. Only insurance companies and the largest industrials ($3 billion and over) compensate committee members with annual plus per-meeting fees in more cases than the per-meeting fee only. Forty-six percent pay a per-meeting fee only for committee service, down from 58 percent in 1983. Six percent pay an annual fee only.

Committee member fees average $664 per meeting, somewhat lower than the average of $730 paid to all respondents. Committee chairmen are generally compensated at a higher rate than committee members.

8. Additional Compensation Information (Table 6)

Forty-three percent of the insurance company respondents raised board fees during the past year. The average fee increased $2,560, 18 percent over last year's increase of $2,500. In 1984, the average increase for all respondents was $2,710. Twenty-six percent project an increase during the coming year. Similar to all participants, only 69 percent of the insurance company respondents believe that their outside directors are adequately compensated, down from 94 percent last year.

The highest paid insurance company director earned $24,890, exclusive of consulting fees, this past year, up from $22,100 last year. This exceeds the $24,440 average for all respondents. The upper quartile average of $48,100 is substantially above the $41,600 upper quartile average for all respondents. Only retailers and industrials with revenues over $5 billion (Table 6) reported a higher average for this category. Twelve percent of the insurance respondents have at least one director who also receives consulting fees, down from 21 percent last year and less than the 23 percent reported by

all respondents.

Benefits continue to be an increasingly important part of compensation plans for outside directors of insurance companies. Twenty-two percent now offer life insurance and 61 percent have matching educational gifts programs (up from 57 percent). Seventy-five percent have plans that allow deferral of board fees until retirement (up from 70 percent last year), and 12 percent have formal retirement plans. Travel expense reimbursement and directors' liability insurance are provided by 92 percent and 84 percent, respectively.

Ninety percent of the insurers have procedures whereby the board annually reviews and establishes appropriate compensation for the chief executive officer. Eighty-six percent report a board review of the compensation for other senior officers.

-Stock Ownership

Only forty-nine percent of the insurers stated that stock options should not be part of directors' compensation, compared with 76 percent for all respondents. Interestingly, only 16 percent of insurance company bylaws allow for stock options, substantially lower than the 33 percent reported by all companies. Only 39 percent of the insurance companies believe that all directors should own a minimum of 100 shares of company stock, with the majority stating a minimum of 500

shares is preferred.

All but two insurance companies report that outside directors own stock in their companies. Twenty-four percent state that their outside directors own an average of one to 4,000 shares, and 25 percent own between 500 and 6,000 shares.

9. Board Practices and Policies (Table 7)

For the eighth consecutive year, the insurance company respondents averaged seven regular board meetings per year, one less than the average for all respondents. Thirty-nine percent report that they hold at least one of these meetings away from their headquarters, office or a major facility city. Four percent hold at least one meeting outside the country during the year.

An outside director of an insurance company devotes an estimated 111 hours annually to board-related business. This is down somewhat from last year's 116 hours, and still below the 121-hour average for all respondents. The upper quartile average for insurers is 170 hours -- also lower than the 190 overall average (Table 7A). Insurers' board members' hourly rate rose to $148, up from the $130 average reported last year.

While forty-seven percent of the insurance respondents reported an outside director resignation during the past year, 49 percent expect a board vacancy during the coming year. This

is an improvement over last year's expected vacancy rate of 54 percent. Insurance respondents continue to select outside directors primarily based on recommendations by the board chairman and board members, but the use of the formal nominating committee continues to grow -- reported by 65 percent up from 59 percent last year (Table 7B). Insurance companies, along with billion dollar corporations (also 65 percent), lead all other respondent groups in their use of the nominating committee.

Corporate experience remains the primary consideration in asking a prospective director to sit on the board (85 percent vs. 73 percent for all respondents) (Table 7C).

Twenty percent of insurance company respondents had a prospective director decline an invitation to serve on the board (Table 7D). This is up from 11 percent last year but on a par with the 21 percent reported two years ago. The time commitment involved continues to be the major reason for a prospect's declining an invitation.

Ninety-four percent of the insurers permit their chief executive officer to serve on outside public corporate boards compared with 89 percent for all respondents. For senior executives other than the CEO, respondents stated that generally they should not hold more than three board directorships, but limiting the number for these officers was

not a critical factor. Eighty-eight percent of the insurance respondents have mandatory retirement policies. The average retirement age is 68 for inside directors and 70 for outside directors, no change from last year's averages.

10. Issues (Table 8)

Financial results continue to be cited as the most significant issue facing insurance boards today. When asked to rank various issues in order of importance, 82 percent of insurers ranked financial results first, second or third. Other highly ranked issues include strategic planning and day-to-day operations, ranked first, second or third by 53 and 39 percent, respectively. When asked to rank the most important issue five years from now, financial results again placed first (51 percent), followed by strategic planning cited by 47 percent and managerial succession (18 percent).

Financial results continue to occupy the insurance board as the most time-consuming issue, accounting for 28 percent of meeting time.

* * *

TABLE 1 - PARTICIPATING COMPANIES

Fifty-one of America's major insurance companies participated in our Twelfth Annual Study.

Size (Assets)	No. of Insurers	%
Under $2 billion	7	13.7%
$2 billion and over	44	86.3%
TOTAL	51	100.0%

Stock Exchange	No. of Insurers	%
New York Stock Exchange	13	25.5%
American Stock Exchange	--	--
Over-the-Counter	8	15.7%
Mutual	18	35.3%
Private	7	13.7%
No Response	5	9.8%
TOTAL	51	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	6	9	14
$2 billion and over	4	12	16
Average	5	12	16

TABLE 3 - BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

Function	1980 Insurance Companies	1984 Insurance Companies	1984 All Companies Surveyed
Senior Executive (other companies)	92.9%	86.3%	87.5%
Retired or Previously Employed Corporate Officer	62.5%	49.0%	46.0%
Commercial Banker	60.7%	45.1%	31.3%
Attorney (provides legal services to the company)	21.4%	29.4%	28.4%
Academician	53.6%	62.7%	51.5%
Investment Banker	19.6%	15.7%	24.3%
Major Shareholder (not officer of the company)	14.3%	13.7%	29.2%
Attorney (does not provide legal services to the company	41.1%	39.2%	33.5%
Former Government Official	32.1%	31.4%	30.8%
Female	42.9%	60.8%	44.7%
Ethnic Minority Representative	23.2%	29.4%	26.2%
Non-U.S. Citizen	8.9%	7.8%	14.8%
International Executive (American)	7.1%	3.9%	7.6%
"Professional" Director	7.1%	11.8%	17.9%
Retired Executive (other company)	64.3%	86.3%	69.4%

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior Executives (other companies)	22.6%	13.3%
Academicians	32.3%	26.7%
Former Government Officials	12.9%	13.3%
Attorneys (do not provide legal services)	9.7%	26.7%

TABLE 4 - COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	1984 Insurance Companies	1984 All Companies Surveyed
Audit	92.2%	97.6%
Executive	92.2%	79.9%
Compensation	80.4%	85.5%
Finance	60.8%	37.8%
Nominating	52.9%	61.5%
Public Affairs	17.6%	11.5%
Corporate Ethics	15.7%	7.0%
Benefits	15.7%	33.6%

4B. What is the composition of each committee?

Committee	Average Inside Directors	Average Outside Directors	Average Number Directors
Audit	0	4	4
Executive	2	4	6
Compensation	1	5	6
Finance	2	5	7
Nominating	1	4	5
Public Affairs	1	4	5
Corporate Ethics	1	4	5
Benefits	1	2	3

4C. How many committee meetings were held during the past twelve months?

Committee	1983 Average No. of Meetings	1984 Average No. of Meetings
Audit	3	4
Executive	5	5
Compensation	3	4
Finance	8	8
Nominating	3	2
Public Affairs	2	3
Corporate Ethics	3	2
Benefits	2	2

TABLE 5 - COMPENSATION

5A. Annual plus Per-Meeting Fee (92.0% of the Respondents)

Annual Fee Amount	%
Under $3,000	4.4%
$ 3,000 - $ 6,999	19.5%
$ 7,000 - $10,999	28.3%
$11,000 - $13,999	13.0%
$14,000 and over	34.8%
TOTAL	100.0%
Average Annual Fee	$11,200

PLUS

Amount Per Meeting	%
Under $250	4.3%
$250 - $449	10.9%
$450 - $599	26.1%
$600 - $799	37.0%
$800 and over	21.7%
TOTAL	100.0%
Average Per-Meeting Fee	$693

EQUALS

Total Annual Compensation	%
Under $7,000	6.8%
$ 7,000 - $10,999	18.2%
$11,000 - $13,999	11.4%
$14,000 - $16,999	25.0%
$17,000 - $24,999	25.0%
$25,000 and over	100.0%
Average Total Annual Compensation	$16,400

5B. Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$16,400	$27,300
Banks & Other Financial Institutions	$17,500	$27,000
Retailers	$21,400	$31,000
Service Companies	$18,900	$27,900
Industrials		
Under $200 million	$12,300	$18,200
$200 million - $399 million	$13,000	$14,100
$400 million - $599 million	$15,200	$20,300
$600 million - $999 million	$17,900	$24,800
$1 billion - $2.999 billion	$20,300	$27,500
$3 billion - $4.999 billion	$24,400	$29,500
$5 billion and over	$26,300	$36,100
Average	$18,800	$27,100

TABLE 6 - ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1984 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	9.8%
$11,000 - $16,999	23.6%
$17,000 - $24,999	19.6%
$25,000 - $39,999	27.5%
$40,000 and over	13.7%
Unspecified	5.8%
TOTAL	100.0%
Average	$24,890

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$24,890	$48,100
Banks & Other Financial Institutions	$22,830	$38,100
Retailers	$30,390	$54,200
Service Companies	$27,090	$46,000
Industrials		
Under $200 million	$14,650	$23,600
$200 million - $399 million	$16,210	$28,000
$400 million - $599 million	$18,630	$25,600
$600 million - $999 million	$23,110	$37,800
$1 billion - $2.999 billion	$25,200	$36,000
$3 billion - $4.999 billion	$32,600	$43,800
$5 billion and over	$34,300	$69,100
Average	$24,440	$41,600

TABLE 7 - BOARD PRACTICES AND POLICIES

7A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	2.0%
41 to 70	17.6%
71 to 130	47.1%
131 to 190	17.7%
191 to 250	3.9%
251 and over	--
No Response	11.7%
TOTAL	100.0%
Average	111 Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	111	170
Banks & Other Financial Institutions	114	189
Retailers	109	170
Service Companies	126	196
Industrials		
Under $200 million	102	168
$200 million - $399 million	93	143
$400 million - $599 million	102	165
$600 million - $999 million	108	177
$1 billion - $2.999 billion	139	196
$3 billion - $4.999 billion	141	213
$5 billion - and over	164	224
Average	121	190

7B. How are outside directors located for the board?

	%
Recommended by board members	81.2%
Recommended by chairman	79.2%
Nominating committee	64.6%
Recommended by other corporate officers	41.7%
Referred by executive acquaintances	14.6%

7C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	84.8%
Specific Industry Experience	21.7%
Specific Functional Experience	17.4%
Prestige	10.9%

7D. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	19.6%
No	74.5%
No response	5.9%
TOTAL	100.0%

TABLE 8 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	56.9%	78.5%	82.4%
Strategic planning	7.8%	33.5%	52.9%
Day-to-day operations	9.8%	31.4%	39.2%
Financing/Capitalization	2.0%	5.9%	23.5%
Managerial succession	5.9%	11.8%	19.6%
Government relations	-	3.9%	13.7%
Mergers/Acquisitions	-	-	7.8%
Corporate ethics	-	2.0%	5.9%

PROFILE OF KORN/FERRY INTERNATIONAL

Korn/Ferry International is the largest executive search firm in the world today.

Headquartered in New York and Los Angeles, Korn/Ferry maintains a worldwide network of 36 offices in 16 countries and 35 cities.

Korn/Ferry's practice is broad-based, serving the specific needs of clients through 10 specialty search divisions:

Board Services
Energy
Entertainment
Fashion/Retail
Financial Services
Government/Not-for-Profit/Education
Health Care
High Technology
Hospitality/Leisure
Real Estate

* * *